BRIEFING

Implement the reforms for growth and jobs

BUSINESSEUROPE

Fight against public deficits

"Sustainable public finances release the growth potential of an economy"

BACKGROUND

Firms have more incentives to invest and hire staff in a sound and predictable macroeconomic environment, where the state is lean, efficient and forward-looking. Budgetary policy must be committed to fiscal sustainability and must ensure that sufficient resources are allocated to competitiveness-enhancing policies.

However, the financial and economic crisis has triggered a sharp rise in expenditure and at the same time a fall in governments' revenues. Due to the only halfheartedly pursued consolidation efforts of public finances in times of strong economic growth, the vast majority of member states now face a sizeable increase in public deficits. Across the EU27, public deficits will on average be 7% in 2010, with some countries even reaching double that amount. Bank rescue plans and public guarantee schemes have also caused public debt to skyrocket.

Against this background, a dilution of governments' commitments to medium-term fiscal sustainability must be avoided. Unsustainable budgetary policies not only hamper economic prospects at the individual country level, but have also important cross-border spillover effects in particular for those countries sharing the single currency.

Abiding by the letter and spirit of the Stability and Growth Pact, improving policy coordination and ensuring that national fiscal institutions are conducive to fiscal discipline is of fundamental importance to encourage companies to invest, innovate and develop human capital.

What BUSINESSEUROPE wants :

Keep public debt under control

A rapidly ageing population is posing immense and imminent policy challenges, for which most EU countries still appear inadequately prepared. Under a no-policy-change scenario, Standard and Poor's, the rating agency, has predicted that public debt could triple by 2050. Sustainable solutions will need to come mainly from reforms of social security systems. But governments should also maintain efforts to target balanced budgets or surpluses. And progress should be closely monitored and governments should be held accountable.

Consolidate public finances more during good times

Budgetary policy should leave room for macroeconomic stabilisation, in the sense that consolidation should occur primarily during the upper part of the business cycle, in order to provide sufficient leeway to absorb subsequent downturns. In contrast, past experience has shown that most governments are complacent in the upturn and face difficulties to control public finances when growth hits a soft patch. This tendency for pro-cyclical policy is particularly detrimental in the monetary union, where budgetary policy is the main macroeconomic instrument to avoid drawn-out periods of overheating or overcooling at the individual country level. The fiscal framework at both EU and national level should tackle this issue as a matter of priority.

Improve the quality of public finance

The structure of public expenditure and revenue is of crucial importance, affecting the capacity of the private sector to develop and of governments to run appropriate budgetary policies. In this regard, the state should be lean and effective in the delivery of public services. Public administrations must seek to become more efficient and productive. In terms of public expenditures, a sufficient share of public resources should be allocated where strong leverage on growth and jobs can be expected, such as in education, research and modern infrastructures. The overall tax burden should also remain at acceptable levels and taxation structures should minimise economic disincentives.